

**Millennial Webcast, Lincoln Financial Group  
October 28, 2014**

# **Financial Capability Among Young Adults\***

**Carlo de Bassa Scheresberg  
Senior Research Associate, George Washington School of Business**

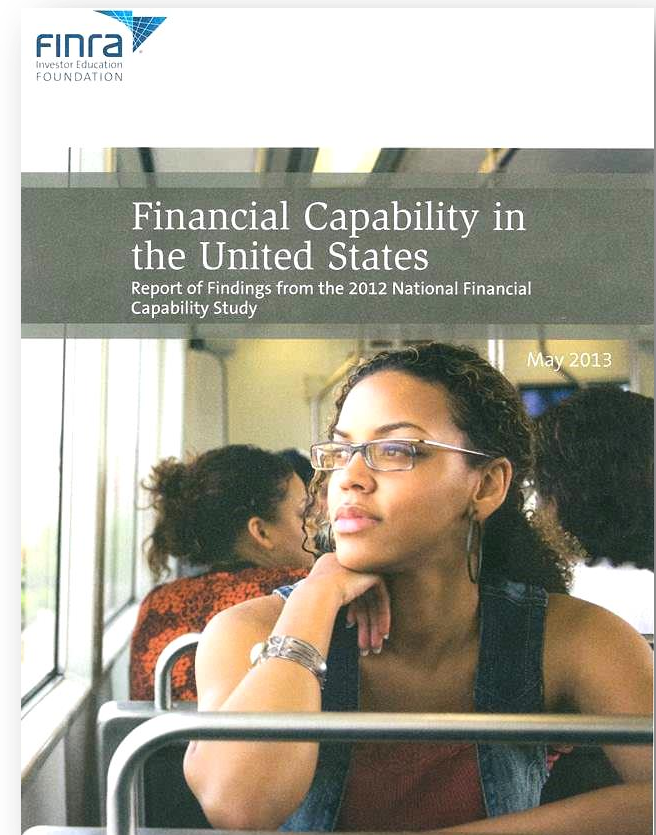


**\*Funded by the National Endowment for Financial Education (NEFE)**

# New data: National Financial Capability Study (NFCFS)

**State-by-State Survey**: Online survey of more than 25,000 respondents (roughly 500 per state + DC)

- 2012 wave was released on May 29, 2013
- First wave was collected in 2009
- Survey offers unique information on Americans' financial capability
- To provide an encompassing overview of Gen Y's personal finances, several indicators are considered



# Gen Y's assets & investments

<i>Percentage of respondents with:</i>	
Checking accounts	85%
Savings accounts	69%
(% Banked)	(88%)
Any retirement accounts, employer-based or independent	51%
Investments in stocks, bonds, or mutual funds	26%
Home	41%
Some college education	29%
College degree	38%

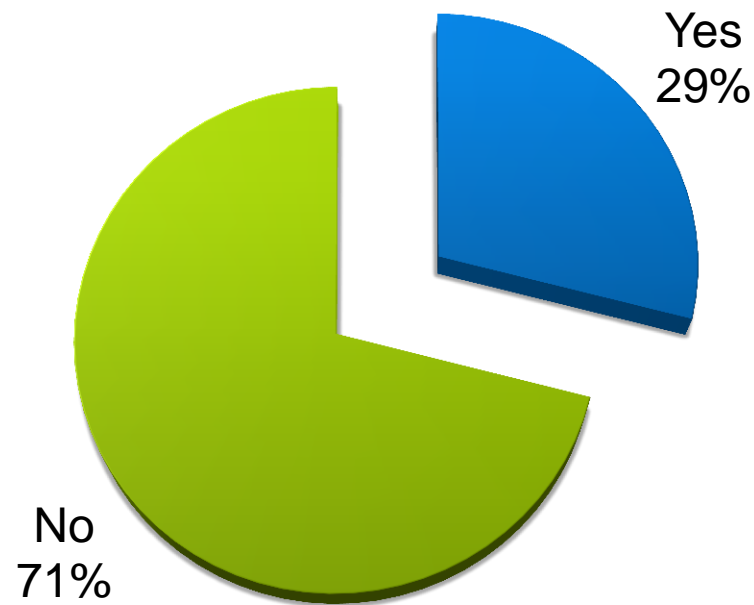
- Many Millennials make or have made significant financial decisions, such as buying a house or choosing investment allocations

**Let's look closer at some of these assets and investments.**

# Gen Yers are borrowing on their assets and investments

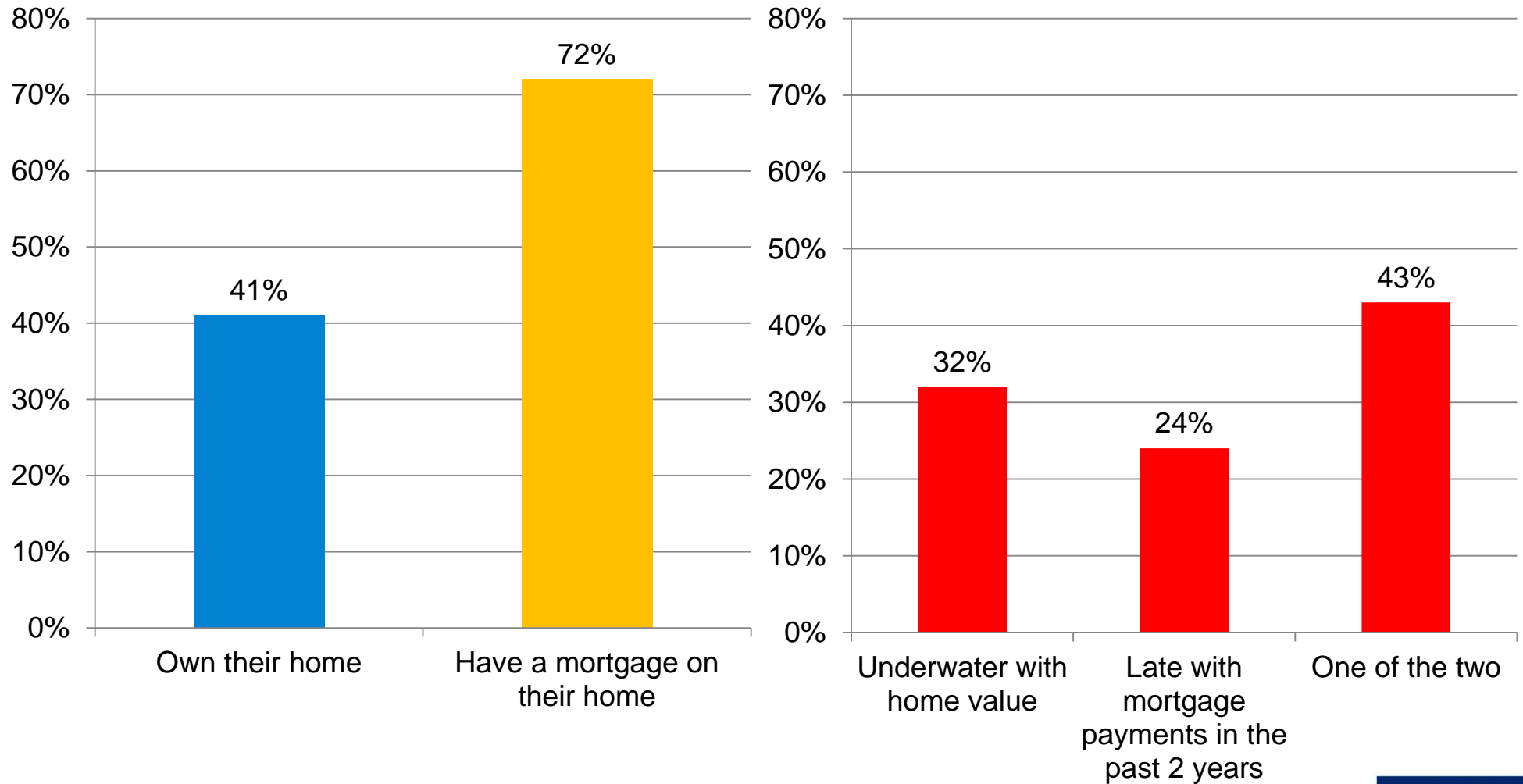
- **85% of Gen Yers have a checking account**
- **Nearly 30% of Gen Yers are overdrawing from their checking account**

*Overdrafts from checking account*



*Note:* The statistic relative to overdrawing a checking account is conditional on having a checking account.

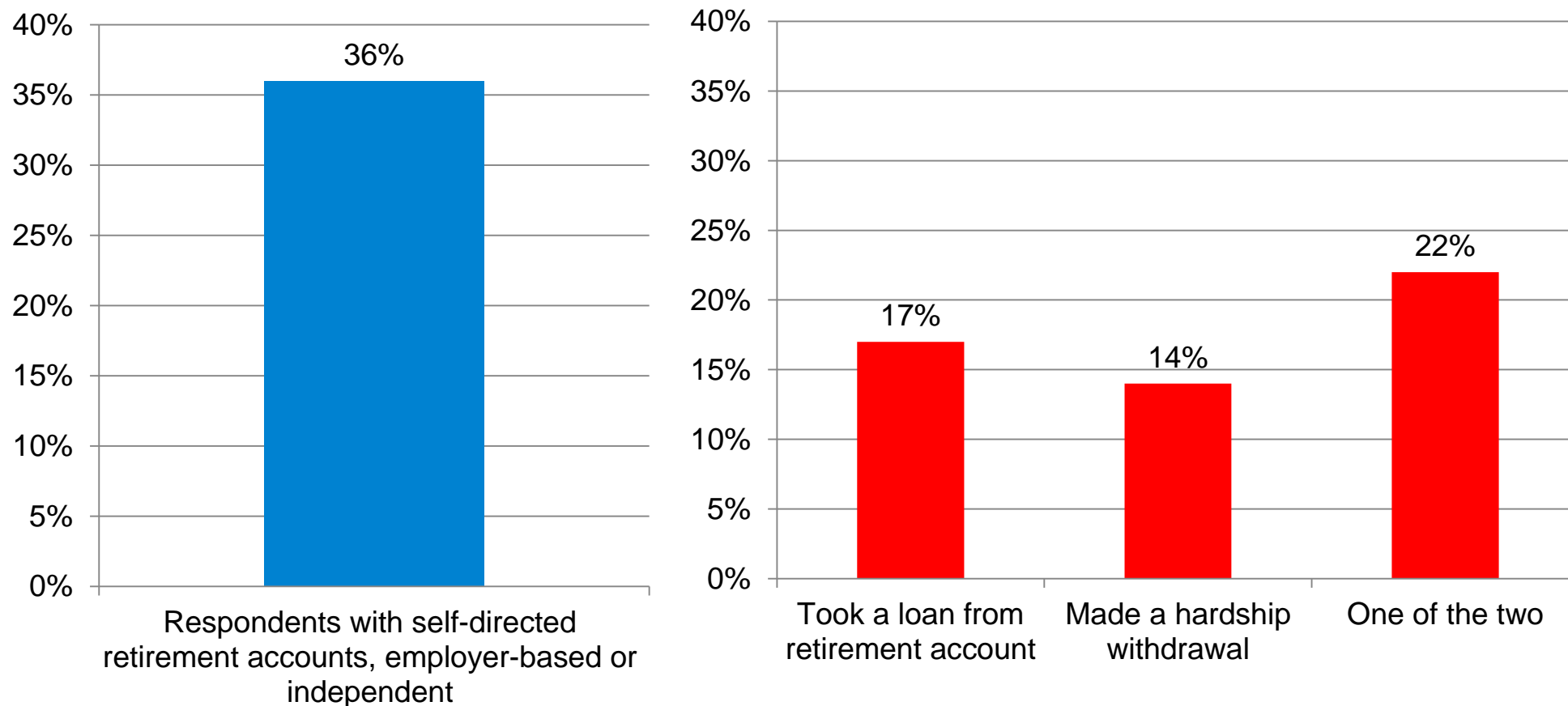
# Borrowing on the home



*Note:* The statistics relative to home mortgages and the statistics displayed in the graph at the right are conditional means.

# Tapping retirement accounts

## Loans and hardship withdrawals

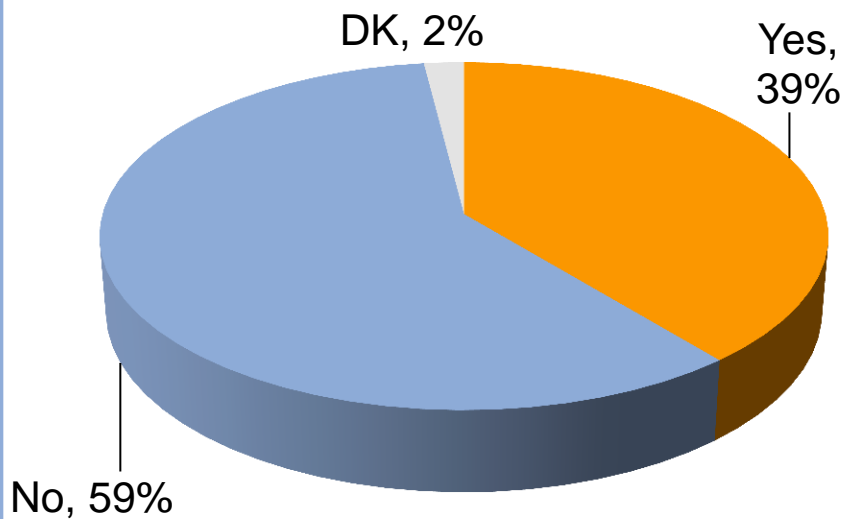


*Note:* The statistics displayed in the graph at the right are conditional means.

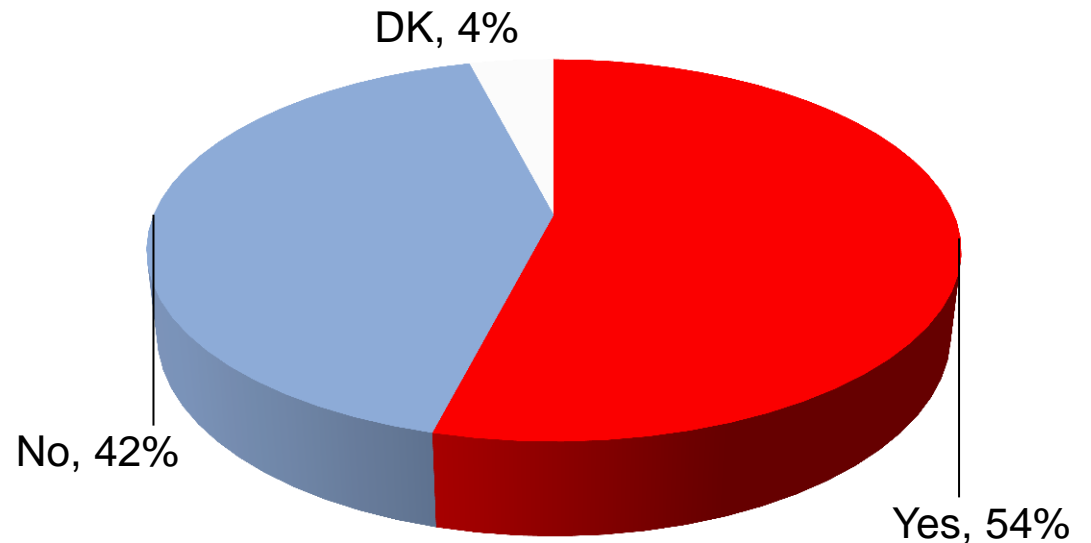
# Borrowing for education

- **38% of Gen Yers have a college degree**
- **Many Gen Yers are taking on debt to finance their education**

*Have a student loan*

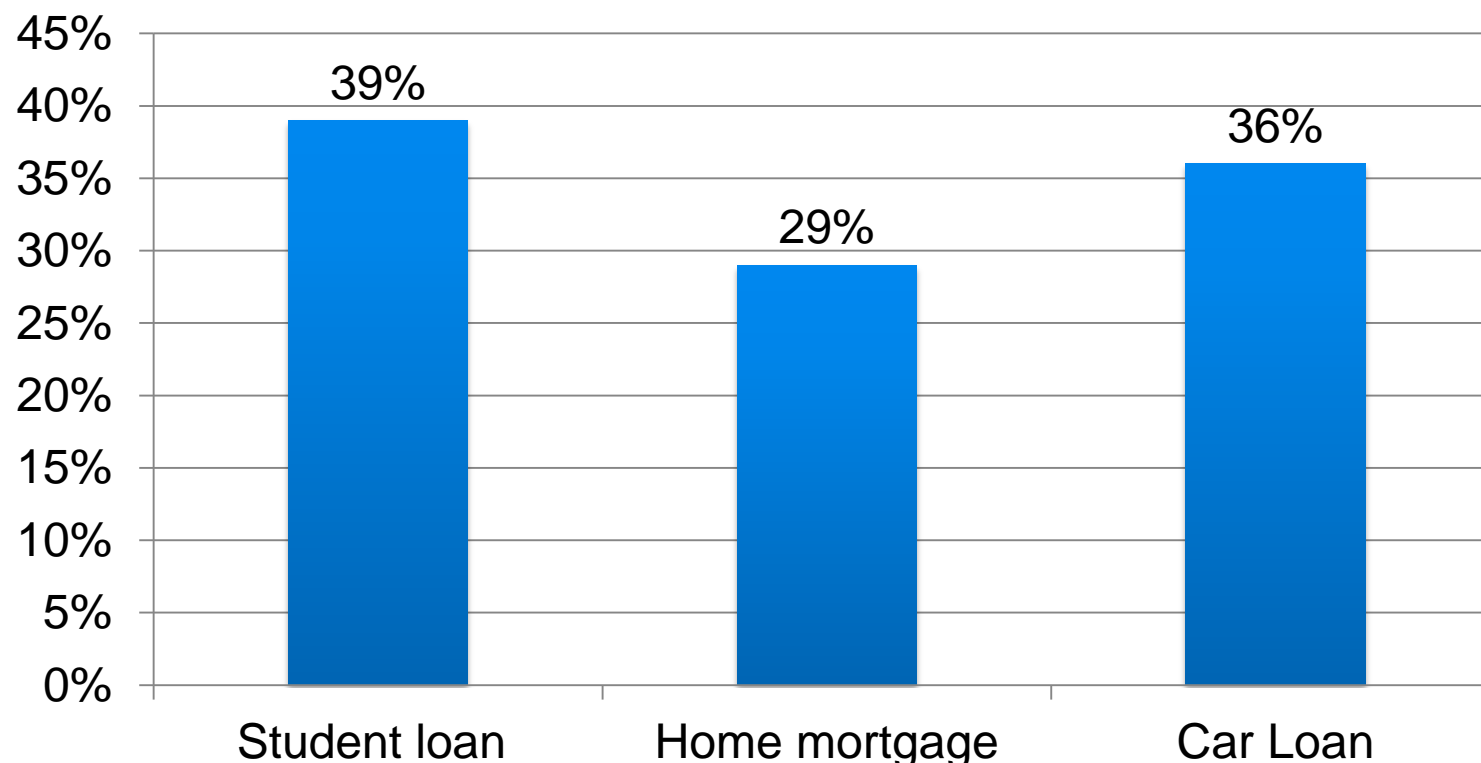


*Concerned they might not be able to pay off student loan*



*Note:* The statistics relative to ability to repay student loans is conditional on having a student loan.

# Overview on long-term debt



*Note:* The statistics relative to home mortgage and car loan are unconditional means.

- Two-thirds (66%) of Millennials have at least one outstanding long-term debt—whether student loan, home mortgage, or car loan—and 30% have more than one source of outstanding long-term debt.
- Among college-educated respondents, a staggering 81% have at least one long-term debt, and 44% have more than one long-term debt.



# Short-term liabilities: Credit card use

**68% of Gen Yers have at least one credit card**

## How are credit cards used?

*In the past 12 months, which of the following describes your experience with credit cards?*

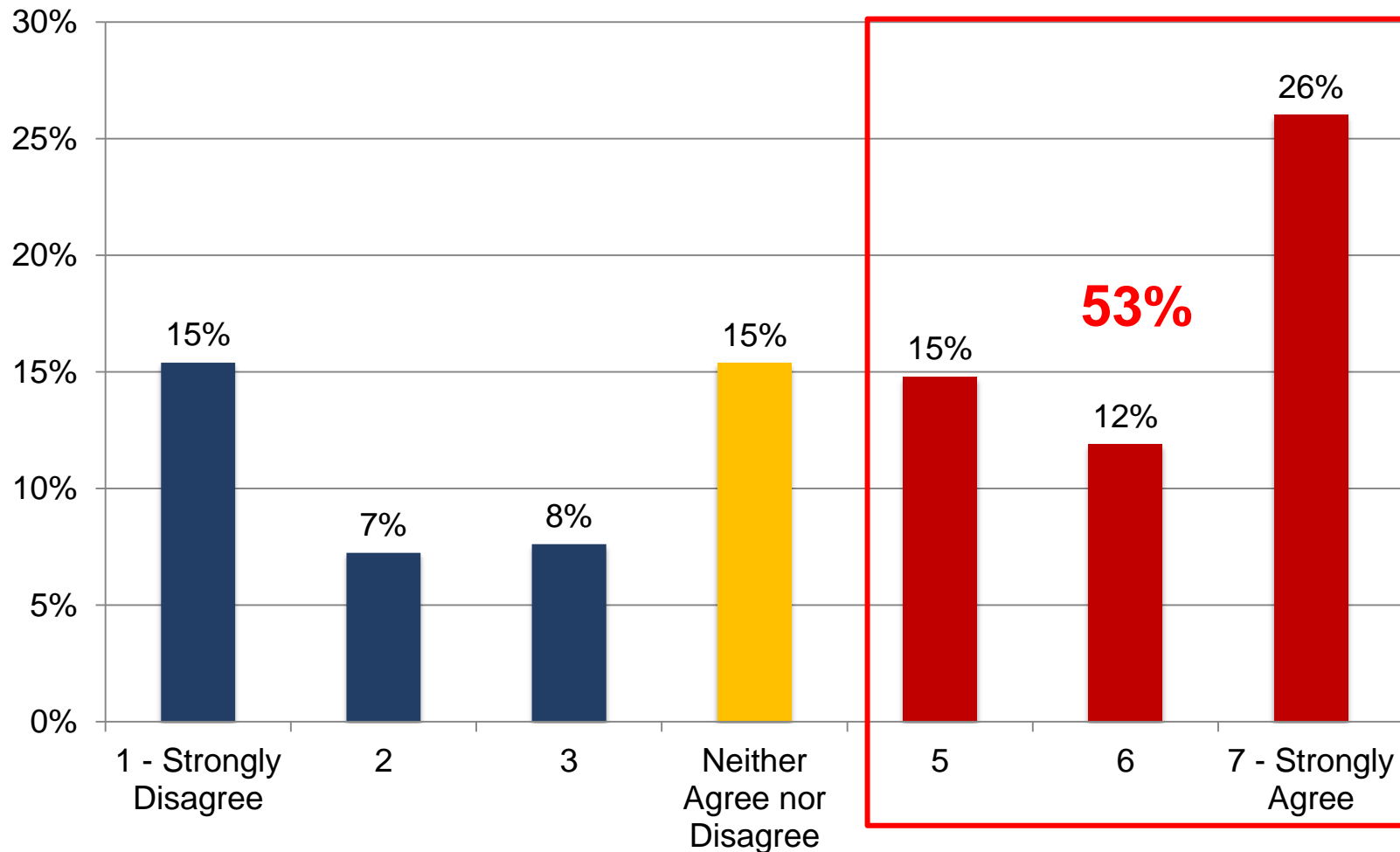
I always paid my credit cards in full	47%
<i>Credit card behavior that generates high interest payments and fees:</i>	
In some months, I paid the minimum payment only	45%
In some months, I was charged a late fee for late payment	22%
In some months, I was charged an over-the-limit fee for exceeding my credit line	13%
In some months, I used the cards for a cash advance	14%
<i>N</i>	3,757

*Note:* The table reports the answers to the question: “In the past 12 months, which of the following describes your experience with credit cards?” Percentages are calculated over the sample of credit-card holders only. The first two items were not required to total 100% and may exceed it as a result of measurement error (for example, new credit card holders may be allowed to carry over a balance without being charged interest).

**52% of cardholders used them in “expensive” ways**

# Perceived over-indebtedness

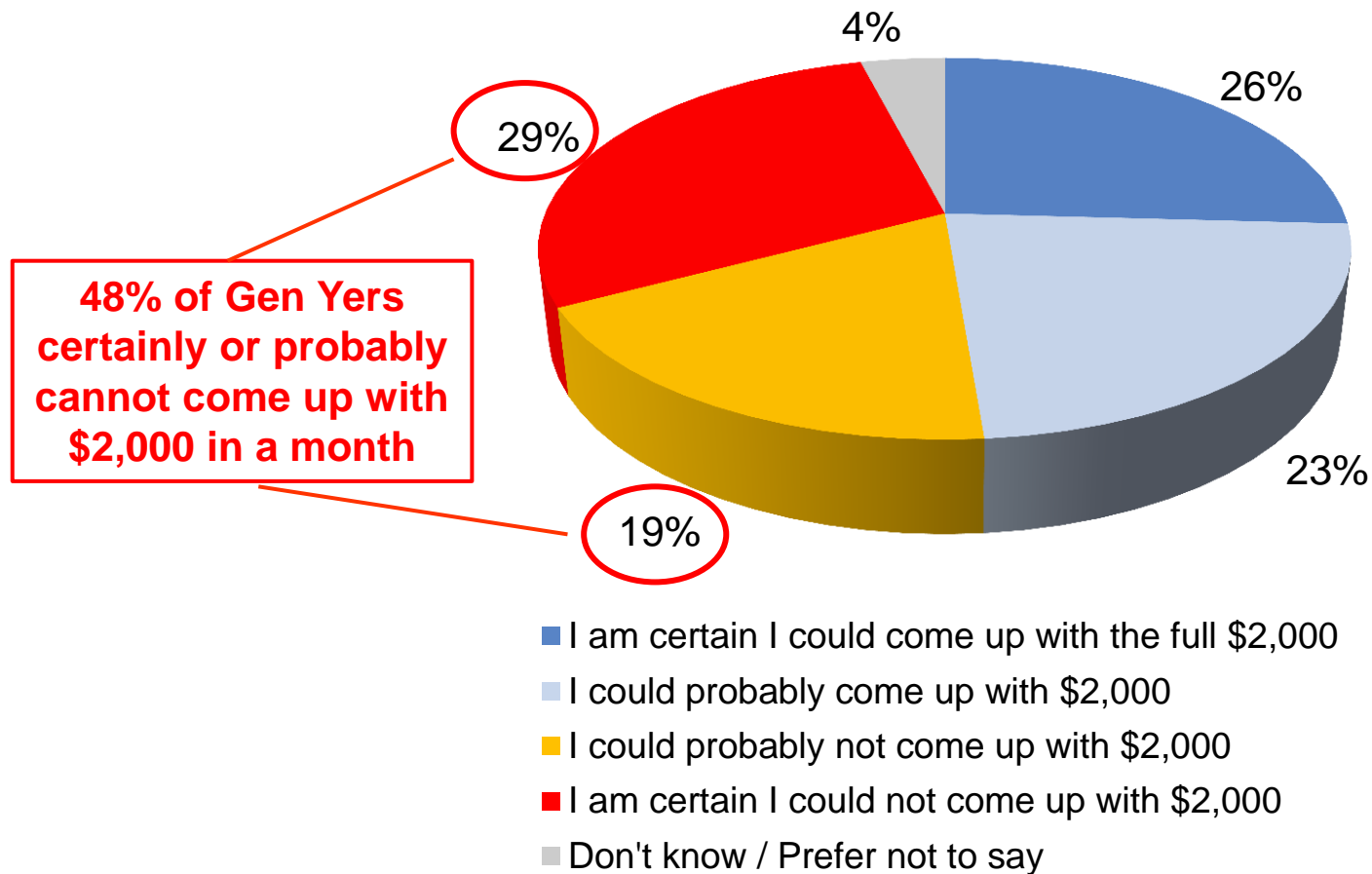
***“How strongly do you agree or disagree with the following statement?  
– I have too much debt right now.”***



Note: Percentages do not add up to 100% because “don’t know” and “prefer not to say” answers are excluded.

# Millennials and financial fragility

***“How confident are you that you could come up with \$2,000 if an unexpected need arose within the next month?”***



# Poor financial literacy among Millennials

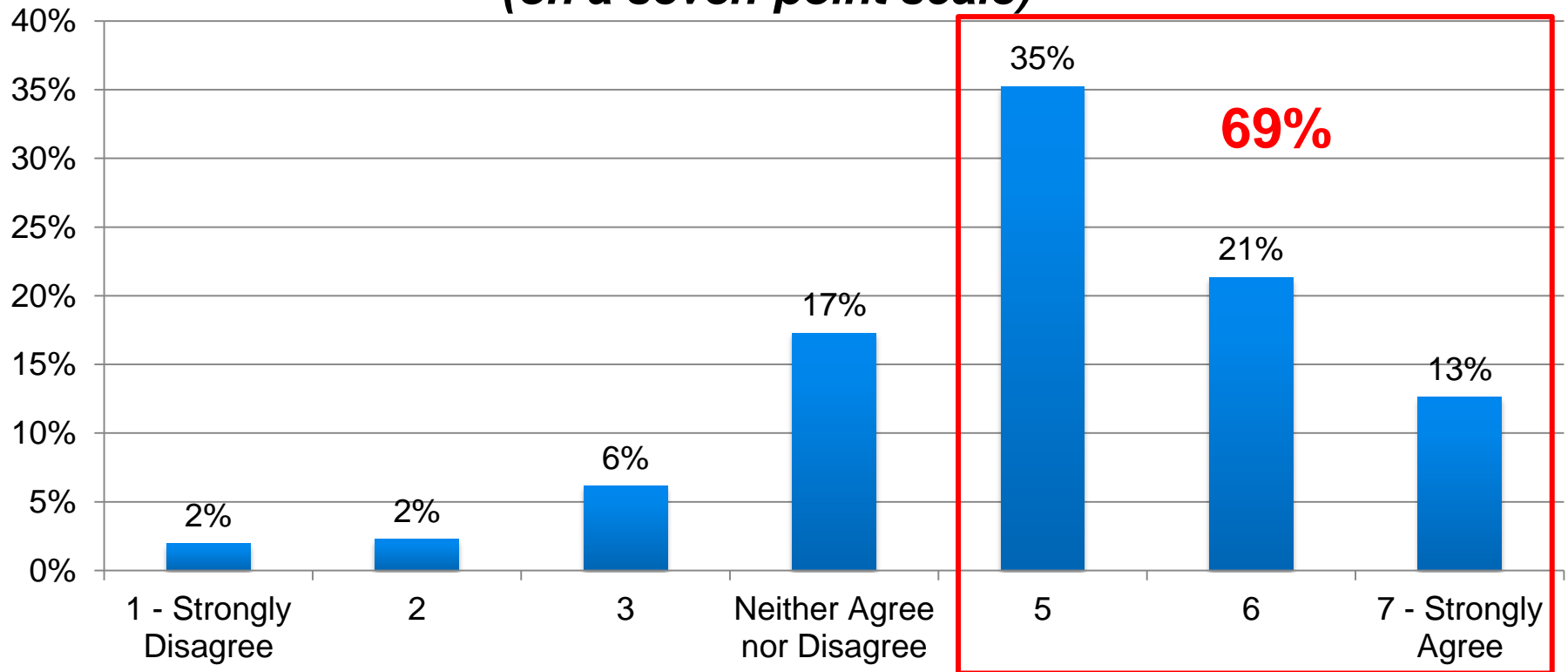
## Answers to five financial literacy questions

	<i>% Correct</i>	<i>% Don't Know</i>
Numeracy question	73%	13%
Inflation question	46%	27%
Risk diversification question	40%	48%
Mortgage question	72%	17%
Bond prices question	22%	42%
<b>Answered the first three questions correctly</b>	<b>24%</b>	-
<b>Answered all five questions correctly</b>	<b>8%</b>	-

**Only 22% of Millennials have received some form of financial education.**

# Actual vs. perceived financial knowledge

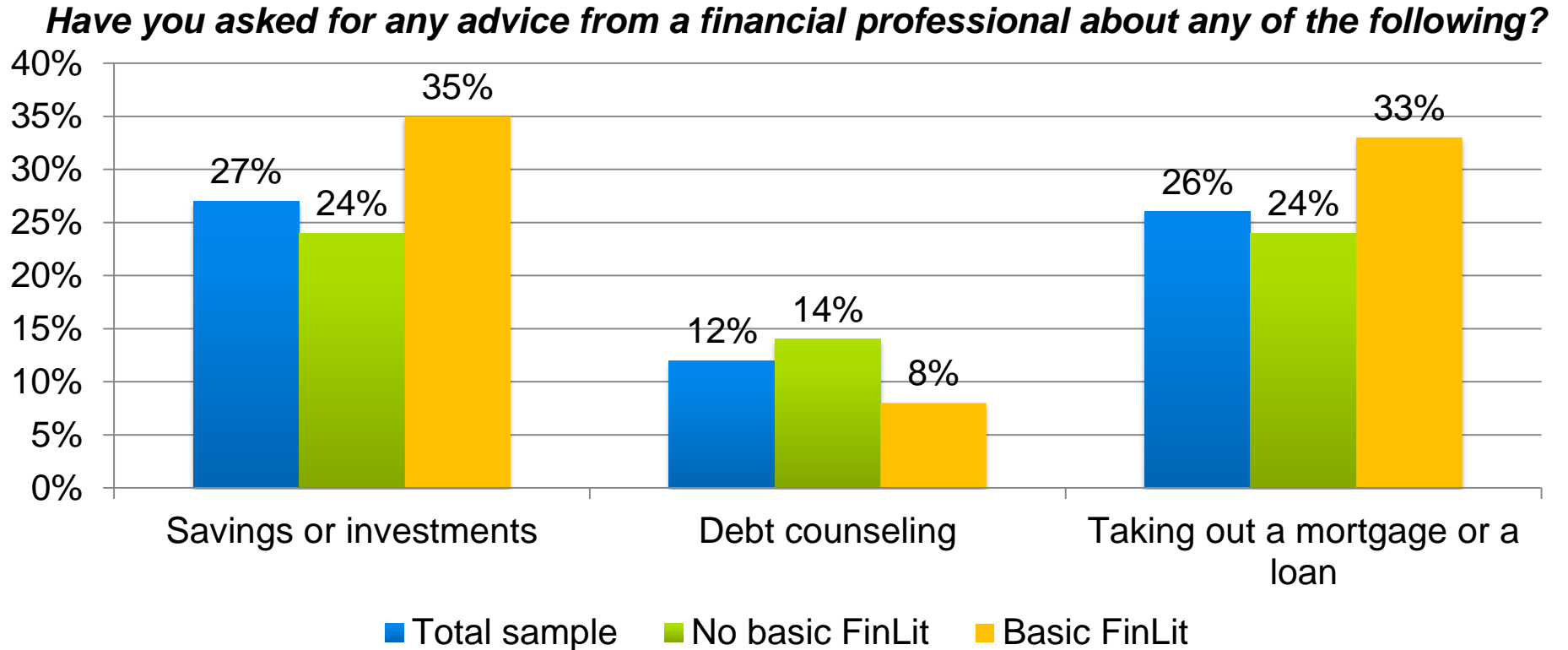
*How would you assess your overall financial knowledge?  
(on a seven-point scale)*



Note: Percentages do not add up to 100% because “don’t know” and “prefer not to say” answers are excluded.

- Additionally, **74%** agree with the statement “I am good at dealing with day-to-day financial matters, such as checking accounts, credit and debit cards, and tracking expenses.”

# Professional financial advice by financial literacy



- Only 12% of respondents received advice from a financial professional about debt counseling and, even among those who feel they have too much debt, only 17% sought this type of advice.
- Respondents with higher financial literacy are more likely than those with lower financial literacy to have received professional financial advice.

# Summary: 10 key findings

1. Millennials invest and have many assets. However, looking only at assets provides a limited view of Gen Yers' financial profile.
2. Debt is widespread among Gen Yers. Most of them carry short-term or long-term debt or both.
3. Student loans are a major source of debt, in particular for college-educated Millennials, and most of them are concerned about their ability to pay off student loans.
4. Gen Yers use expensive methods of borrowing, such as credit cards, payday loans, and pawnshops.
5. There is an educational divide when it comes to the use of alternative financial services (AFS). While 28% of Millennials with a college degree used AFS in the five years prior to the survey, 50% of respondents with high school education or less have relied on AFS.
6. While many Millennials have retirement accounts, they have already tapped into those accounts and are borrowing from themselves.

# Summary: 10 key findings (continued)

7. Members of Generation Y feel overly indebted.
8. Millennials typically believe themselves capable of making day-to-day and long-term financial decisions, but there are signs of overconfidence.
9. Professional financial advice is used sparingly. Also, many Millennials lack trust in financial professionals and think that professional financial advice is too expensive for them.
10. Even though Millennials made or are making many decisions related to investments and debt, most of them lack financial literacy and are not aware of their lack of financial knowledge.



# Thank you

Carlo de Bassa Scheresberg  
George Washington School of Business  
Global Financial Literacy Excellence Center (GFLEC)

E-mail: [cdebassa@gwu.edu](mailto:cdebassa@gwu.edu)

Web site: <http://www.gflec.org/>

